AWARE INC /MA/
Form PRE 14A
September 24, 2010

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

SCHEDULE 14A
(RULE 14a-101)

INFORMATION REQUIRED IN PROXY STATEMENT

SCHEDULE 14A INFORMATION

Proxy Statement Pursuant to Section 14(a) of the
OF THE SECURITIES EXCHANGE ACT OF 1934

Filed by the Registrant x
Filed by a Party other than the Registrant o

Check the appropriate box:
x Preliminary Proxy Statement
o Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))
o Definitive Proxy Statement
o Definitive Additional Materials
o Soliciting Material Pursuant to Section 240.14a-12

AWARE, INC.

(Name of Registrant as Specified in its Charter)

N/A

(Name of Person(s) Filing Proxy Statement, if other than registrant)

Payment of filing fee (Check the appropriate box):
x No fee required.
o Fee computed on table below per Exchange Act Rules 14a-6(I) (1) and 0-11.

1) Title of each class of securities to which transaction applies:

2) Aggregate number of securities to which transaction applies:

3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11:1

4) Proposed maximum aggregate value of transaction:

5) Total fee paid:

o Fee paid previously with preliminary materials.
o Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

1) Amount Previously Paid:[Missing Graphic Reference]2) Form, Schedule or Registration Statement No.:

3) Filing Party:

4) Date Filed:

* * * * *

Aware, Inc.

Notice of Special Meeting of Stockholders

to be held on November 1, 2010

Aware, Inc. hereby gives notice that it will hold a special meeting of stockholders at its corporate headquarters, 40 Middlesex Turnpike, Bedford, Massachusetts 01730, on Monday, November 1, 2010, beginning at 10:00 a.m., local time, for the following purposes:

1. To approve amendments to existing equity plans to provide for an equity exchange program; and

2. To transact such other business as may properly come before the special meeting or any adjournment thereof.

The board of directors has fixed the close of business on September 27, 2010 as the record date for the determination of the stockholders of Aware entitled to receive notice of the special meeting and to vote at the meeting. Only stockholders of record on that date are entitled to receive notice of the special meeting and to vote at the meeting or any adjournment thereof.

By order of the board of directors,

Edmund C. Reiter
President and Chief Executive Officer

October 4, 2010
Bedford, Massachusetts

YOUR VOTE IS IMPORTANT

Please sign and return the enclosed proxy or vote your proxy over the Internet or by telephone, whether or not you plan to attend the meeting.

Important Notice Regarding the Availability of Proxy Materials for the Special Meeting of Stockholders to Be Held on November 1, 2010. The Proxy Statement is available on the following web sites: www.envisionreports.com/AWRE for registered holders and www.edocumentview.com/AWRE for street holders.

Aware, Inc.
40 Middlesex Turnpike
Bedford, Massachusetts 01730
(781) 276-4000

PROXY STATEMENT

SPECIAL MEETING OF STOCKHOLDERS

to be held on November 1, 2010

This proxy statement relates to a special meeting of stockholders of Aware, Inc. The special meeting will take place as follows:

Date:	November 1, 2010
Time:	10:00 a.m.
Place:	Aware, Inc. Corporate Headquarters 40 Middlesex Turnpike Bedford, Massachusetts

The board of directors of Aware is soliciting proxies for the special meeting and adjournments of the special meeting. If a stockholder returns a properly executed proxy or votes his or her proxy over the Internet or by telephone, the shares represented by the proxy will be voted in accordance with the stockholder's directions. If a stockholder does not specify a vote on any proposal, the shares covered by his or her proxy will be voted on that proposal as management recommends. Aware encourages its stockholders to vote on all proposals. A stockholder may revoke its proxy at any time before it has been exercised.

Aware is mailing this proxy statement and the enclosed form of proxy to stockholders on or about October 4, 2010.

PROXY STATEMENT

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SPECIAL MEETING OF STOCKHOLDERS

Purpose of the special meeting

At the special meeting, Aware will submit one proposal to the stockholders:

Proposal: To approve amendments to existing equity plans to allow for an equity exchange program.

Currently, Aware does not intend to submit any other proposals to the stockholders at the special meeting. The board of directors was not aware, a reasonable time before mailing this proxy statement to stockholders, of any other business that may be properly presented for action at the special meeting. If any other business comes before the special meeting, the persons present will have discretionary authority to vote the shares they own or represent by proxy in accordance with their judgment, to the extent authorized by applicable regulations.

Record date

The board of directors of Aware has fixed the close of business on September 27, 2010 as the record date for the special meeting. Only stockholders of record at the close of business on that date are entitled to receive notice of the meeting and to vote at the meeting or any adjournment of the meeting. At the close of business on the record date, there were issued and outstanding • shares of Aware’s common stock, which are entitled to cast • votes. A list of stockholders entitled to notice of the special meeting is available for inspection by any stockholder at our corporate headquarters at 40 Middlesex Turnpike, Bedford, MA.

Methods of voting

The shares represented by your properly signed proxy card will be voted in accordance with your directions. If you do not specify a choice with respect to a proposal for which our board of directors has made a recommendation, the shares covered by your signed proxy card will be voted as recommended in this proxy statement. We encourage you to vote on all matters to be considered.

Voting by mail:

By signing and returning the proxy card in the enclosed envelope, you are enabling the individuals named on the proxy card (known as “proxies”) to vote your shares at the meeting in the manner you indicate. We encourage you to sign and return the proxy card even if you plan to attend the meeting. In this way, your shares will be voted even if you are unable to attend the meeting. If you received more than one proxy card, it is an indication that your shares are held in multiple accounts. Please sign and return all proxy cards to ensure that all of your shares are voted.

Voting by telephone:

To vote by telephone, please follow the instructions included on your proxy card. If you vote by telephone, you do not need to complete and mail your proxy card.

Voting on the Internet:

To vote on the Internet, please follow the instructions included on your proxy card. If you vote on the Internet, you do not need to complete and mail your proxy card.

Voting in person at the meeting:

If you plan to attend the meeting and vote in person, we will provide you with a ballot at the meeting. If your shares are registered directly in your name, you are considered the stockholder of record and you have the right to vote in person at the meeting. If your shares are held in the name of your broker or other nominee, you are considered the beneficial owner of the shares held in street name. If you wish to vote shares held in street name at the meeting, you will need to bring with you to the meeting a legal proxy from your broker or other nominee authorizing you to vote your shares.

Quorum

Aware's by-laws provide that a quorum at the special meeting will be a majority in interest of all stock issued, outstanding and entitled to vote at the meeting. Aware will treat shares of common stock represented by a properly signed and returned proxy or a proxy properly delivered over the Internet or by telephone as present at the meeting for purposes of determining the existence of a quorum at the meeting. In general, Aware will count abstentions and broker "non-votes" as present or represented for purposes of determining the existence of a quorum at the meeting. A broker "non-vote" occurs when a broker or nominee holding shares for a beneficial owner does not vote on a proposal because the broker or nominee does not have discretionary voting power and has not received instructions from the beneficial owner with respect to that proposal.

Vote required; tabulation of votes

The approval of the amendments to certain of our existing equity plans requires the affirmative vote of a majority of the votes properly cast on the proposal. Abstentions and broker non-votes will not count as votes cast for or against the proposal and accordingly will not affect the outcome of the vote.

Aware's transfer agent, Computershare Trust Co., Inc., will tabulate the votes at the special meeting.

Dissenter's rights of appraisal

No action will be taken in connection with the proposal described in this proxy statement for which Massachusetts law, our Articles of Organization or our By-Laws provide a right of a stockholder to dissent and obtain appraisal of or payment for such stockholder's shares.

Revocation of proxies

A stockholder who has executed a proxy may revoke the proxy at any time before it is exercised at the special meeting in three ways:

by giving written notice of revocation to the Secretary of Aware at the following address:

Aware, Inc.
40 Middlesex Turnpike
Bedford, Massachusetts 01730
Attention: Secretary

by signing and returning another proxy with a later date; or

by attending the special meeting and informing the Secretary of Aware in writing that he or she wishes to vote in person.

Mere attendance at the special meeting will not in and of itself revoke the proxy. Accordingly, stockholders who have delivered proxies in advance of the special meeting may change their votes at any time before or at the special meeting.

Solicitation of proxies

Aware will bear all costs incurred in connection with the solicitation of proxies for the special meeting. Aware will reimburse brokers, banks, fiduciaries, nominees and others for the out-of-pocket expenses and other reasonable clerical expenses they incur in forwarding proxy materials to beneficial owners of common stock held in their names. In addition to this solicitation by mail, Aware's directors, officers and employees may solicit proxies, without additional remuneration, by telephone, facsimile, electronic mail, telegraph and in person. Aware expects that the expenses of any special solicitation will be nominal. At present, Aware does not expect to pay any compensation to any other person or firm for the solicitation of proxies.

Internet access to proxy materials

The notice of special meeting and this proxy statement are available on the Internet at www.envisionreports.com/AWRE for registered holders and www.edocumentview.com/AWRE for street holders. These web sites do not use "cookies" to track or identify visitors to the web site.

Directions to special meeting

If you are planning to attend our special meeting of stockholders, below are directions to our corporate headquarters, 40 Middlesex Turnpike, Bedford, Massachusetts:

From Boston

Take I-93 North to Exit 37B (I-95/Route 128 South). Follow I-95/Route 128 South to Exit 32A (Route 3 North). Take Exit 26, Route 62 and turn right at bottom of the ramp onto Route 62. Follow approximately one mile to the third set of traffic lights; turn left on Middlesex Turnpike. Our corporate headquarters are on the left.

From Manchester
New Hampshire Route 3 South to Exit 26 (Route 62/Bedford-Burlington). Turn left at the bottom of the ramp onto Route 62. Follow to third set of traffic lights; turn left on Middlesex Turnpike. Our corporate headquarters are on the left.

From Bedford/ Laurence G Hanscom Field, Massachusetts
Take I-95/Route 128 North to Exit 32A (Route 3 North). Take Exit 26, Route 62 and turn right at the bottom of the ramp onto Route 62. Follow approximately one mile to third set of traffic lights; turn left on Middlesex Turnpike. Our corporate headquarters are on the left.

From Worcester
Take I-290 E toward MARLBORO/I-190. Merge onto I-495 N via EXIT 26B on the LEFT toward LOWELL. Merge onto US-3 S via EXIT 35A toward BURLINGTON. Take the RT-62 exit (EXIT 26) toward BEDFORD/BURLINGTON. Turn left at the bottom of the ramp onto Route 62. Follow to third set of traffic lights; turn left on Middlesex Turnpike. Our corporate headquarters are on the left.

From Boston/Cambridge
Take Route 2 West to I-95/Route 128 North. Follow I-95/Route 128 North to Exit 32B (Burlington/Middlesex Turnpike). Turn right onto Middlesex Turnpike and follow approximately 2 1/2 miles to set of lights at the Lemon Tree restaurant. Bear right at lights to stay on Middlesex Turnpike. Our corporate headquarters are on the left.

MATTER TO BE CONSIDERED AT THE SPECIAL MEETING

PROPOSAL – APPROVAL OF PLAN AMENDMENTS TO AUTHORIZE AN EQUITY EXCHANGE PROGRAM

The board of directors has determined that it would be in the best interest of Aware to implement an equity exchange program for all of Aware’s outstanding stock options and stock appreciation rights (the “Equity Exchange Program”). The board of directors has approved amendments, subject to stockholder approval, to the Aware, Inc. 1996 Stock Option Plan and the Aware, Inc. 2001 Nonqualified Stock Plan (together, the “Plans”) to expressly permit Aware to offer its employees, executive officers, directors and consultants who are employed by, or providing services to, Aware throughout the duration of the exchange program (employees, executive officers, directors and consultants are referred to herein as “service providers”) the opportunity to exchange all of their outstanding stock options and stock appreciation rights under the Plans (“Stock Awards”) for a grant of new shares of unrestricted common stock of Aware, which shares will be issued to eligible service providers on the date of grant (“New Shares”).

Aware's compensation philosophy is intended to attract, retain and motivate its service providers using an appropriate mix and various levels of cash and equity compensation. Equity compensation for Aware's service providers is very important in the implementation of this philosophy. The decline in Aware's stock price has posed a challenge to the overall goal of retaining and motivating service providers upon whom Aware and stockholders rely to help move Aware forward in these challenging times. Many of the stock options and stock appreciation rights that were granted in past years now have exercise prices that are higher than the trading price in recent months of Aware's common stock and, as such, are ineffective as retention or incentive tools for future performance. As of September 15, 2010, service providers held stock options and stock appreciation rights to purchase over five million shares of Aware's common stock with exercise prices above the fair market value of Aware's common stock on that date ($2.33 per share). The board of directors has determined that the magnitude of this problem weakens the effectiveness of Aware's long-term incentive program and detracts from the effectiveness of overall compensation. Furthermore, as a result of the number of options and stock appreciation rights outstanding, Aware has a significant equity award "overhang" —the potential dilution to stockholders' ownership represented by outstanding and unexercised stock options and other stock-based awards and it expects the Equity Exchange Program to reduce a portion of that overhang.

The Equity Exchange Program has been designed to reinstate, as of a current date, the retention and motivational value of Aware's equity compensation program and to balance the interests of service providers and stockholders, by offering service providers an opportunity to exchange Stock Awards for New Shares.

In addition, Aware is considering a spin-off of its patent licensing operations (the "Patent Licensing Operations"). To accomplish the spin-off, Aware would form a wholly-owned subsidiary ("Spinco") and contribute the Patent Licensing Operations to Spinco. Aware would then distribute to its stockholders all of the Spinco stock, with the result that Aware's stockholders also would be the stockholders of Spinco. If Aware were to proceed with the spin-off, each Aware stockholder would receive stock in Spinco based on the number of shares of Aware stock held by such stockholder at the time of the spin-off. In the event that Aware implements the Equity Exchange Program prior to the contemplated spin-off, service providers who elect to exchange their Stock Awards for New Shares pursuant to this program would, if the spin-off were completed, receive stock in Spinco based on the number of New Shares received in the exchange offer and any other shares of Aware stock held by such service provider. Completion of the spin-off is contingent upon a number of items including, but not limited to, receipt of a favorable ruling from the Internal Revenue Service as to the United States federal income tax consequences of the spin-off and a determination by Aware's board of directors that the spin-off is in the best interest of Aware. Stockholders will receive additional information if Aware decides to move forward with the spin-off. If Aware's stockholders approve the amendments to the Plans to permit the Equity Exchange Program, Aware intends to proceed with the Equity Exchange Program whether or not it completes the spin-off.

Set forth below are summaries of the Equity Exchange Program and the amendments to the Plans.

Description of equity exchange program

1. Offer to Exchange Stock Awards. Under the proposed Equity Exchange Program, service providers will be given the opportunity to exchange their Stock Awards for new, fewer shares of unrestricted stock. The New Shares will be issued to eligible service providers on the date of grant.

If the amendments permitting the Equity Exchange Program are approved by stockholders, the Compensation Committee will determine whether and when to initiate or terminate the Equity Exchange Program or any exchange offer made to implement the Equity Exchange Program. The Equity Exchange Program may be implemented by one or more separate exchange offers prior to November 1, 2011, at the discretion of the Compensation Committee; however, in no event may more than one offer to exchange under the Equity Exchange Program be made for any outstanding Stock Award. Under any exchange offer, any New Shares will be granted pursuant to the Aware, Inc. 2001 Nonqualified Stock Plan.

Participation in the Equity Exchange Program will be voluntary. There is no way for Aware to predict how many service providers will participate or how many Stock Awards will be tendered.

2. Eligible Service Providers. The Equity Exchange Program will be open to all service providers who are employed by, or providing services to, Aware throughout the duration of the exchange program and who hold Eligible Stock Awards (as described in the next paragraph).

3. Eligible Stock Awards. The Stock Awards eligible for exchange under any exchange offer made pursuant to the Equity Exchange Program will be all options and stock appreciation rights outstanding and unexercised as of the expiration date of the exchange offer.

4. Exchange Ratio. Each Stock Award tendered for exchange will be exchanged for new unrestricted shares of Aware’s common stock such that the new grant will have a value less than or equal to the value of the tendered Stock Award (in accordance with a generally accepted option valuation method), based on the fair market value of Aware’s common stock as of a date within five business days prior to commencement of the exchange offer. The new unrestricted shares will be valued based upon the trading price of Aware’s common stock within five business days prior to the commencement of the exchange offer. Exchange ratios will vary based on the exercise price and remaining term of the tendered Stock Award, as well as the fair market value of Aware’s common stock used for purposes of the valuation. The Compensation Committee will determine the appropriate exchange ratio for any exchange offer under the Equity Exchange Program.

5. Issuance of New Shares. The new unrestricted shares will be issued on the date of grant.

6. Terms and Conditions of New Shares. The terms and conditions of the new unrestricted shares will be governed by an Unrestricted Stock Award Agreement. Each new unrestricted share will be granted pursuant to the Aware, Inc. 2001 Nonqualified Stock Plan and will be governed by the terms of the Aware, Inc. 2001 Nonqualified Stock Plan.

7. Reduction of Overhang. The proposed Equity Exchange Program is designed to help reduce Aware’s existing overhang and the potential dilutive effect on stockholders. In addition, shares underlying options tendered for exchange under the Aware, Inc. 1996 Stock Option Plan shall not be available for future issuance under such plan.

8. Implementation of the Equity Exchange Program. Aware has not commenced the Equity Exchange Program and will not do so unless stockholders approve this proposal. If stockholders approve the amendments to the Plans set forth below to allow the Equity Exchange Program, the Equity Exchange Program may commence on or before November 1, 2011, at the discretion of the Compensation Committee. Upon commencement of the Equity Exchange Program, service providers would be offered the opportunity to participate in the Equity Exchange Program under one or more offers to exchange filed with the Securities and Exchange Commission ("SEC") and distributed to all service providers holding Stock Awards. Service providers would be given a period of at least 20 business days in which to accept an offer. For those service providers who accept the offer, their Stock Awards will be cancelled immediately upon expiration of the offer period and the new unrestricted shares will be granted and stock grant documents distributed promptly thereafter.

At or before commencement of an offer to exchange, Aware will file the offer to exchange and other related documents with the SEC as part of a tender offer statement on Schedule TO. Service providers should read the tender offer statement on Schedule TO, including the offer to exchange and other related materials, when those materials become available because they will contain important information about the exchange offer. Service providers, as well as stockholders and members of the public, will be able to obtain these written materials and other documents filed by Aware with the SEC free of charge from the SEC's website at www.sec.gov.

9. U.S. Federal Income Tax Consequences. Aware expects that U.S. taxpayers generally will recognize ordinary income at the time the new unrestricted shares are issued to the service provider, at which time Aware also generally will have a tax withholding obligation. The amount of ordinary income a service provider recognizes will equal the fair market value of the shares, less the amount, if any, the service provider paid for the shares. With regard to the unrestricted shares issued pursuant to the Equity Exchange Program, the service provider will not have paid any amount for the shares. Aware will satisfy all tax withholding obligations in the manner specified in the service provider's unrestricted stock award agreement. Any gain or loss a service provider recognizes upon the sale or exchange of shares that he or she acquires through a grant of unrestricted shares generally will be treated as capital gain or loss and will be long-term or short-term depending upon how long the service provider holds the shares. Shares held more than 12 months are subject to long-term capital gain or loss, while shares held 12 months or less are subject to short-term capital gain or loss.

Amendments to the plans

In order to permit Aware to implement the Equity Exchange Program in compliance with applicable Nasdaq rules, the board of directors authorized Aware management to amend the Plans, subject to approval of the amendments by Aware's stockholders. The amendment to the Aware, Inc. 1996 Stock Option Plan is as follows:

"SECTION 16. Equity Exchange Program. Notwithstanding any other provision of the Plan to the contrary, the Company, by action of the Compensation Committee of the Board, may effect an Equity Exchange program (the "Equity Exchange Program"), to be commenced through one or more exchange offers prior to November 1, 2011, provided that in no event may more than one offer to exchange under the Equity Exchange Program be made for any outstanding option. Under any exchange offer, Eligible Service Providers will be offered the opportunity to exchange options (the "Surrendered Options") for new unrestricted shares of Common Stock (the "New Shares"), as follows: (1) the exchange ratio shall be set so that each New Share shall have a value (determined in accordance with a generally accepted option valuation method as of a date within five business days prior to the commencement of any exchange offer) less than or equal to the value of the Surrendered Option(s) (determined by the trading price of the Company's Common Stock within five business days prior to the date of the exchange offer) and (2) the Compensation Committee shall determine an exchange ratio for the Equity Exchange Program consistent with the foregoing pursuant to which Surrendered Options shall be exchanged for New Share(s). "Eligible Service Providers" means employees, executive officers, directors and consultants of the Company who are employed by, or providing services to, the Company throughout the duration of the exchange offer. Subject to the foregoing, the Compensation Committee shall be permitted to determine additional terms, restrictions or requirements relating to the Equity Exchange Program."

The amendment to the Aware, Inc. 2001 Nonqualified Stock Plan is as follows:

"SECTION 19. Equity Exchange Program.

Notwithstanding any other provision of the Plan to the contrary, the Company, by action of the Compensation Committee of the Board, may effect an Equity Exchange program (the "Equity Exchange Program"), to be commenced through one or more exchange offers prior to November 1, 2011, provided that in no event may more than one offer to exchange under the Equity Exchange Program be made for any outstanding option or stock appreciation right. Under any exchange offer, Eligible Service Providers will be offered the opportunity to exchange options or stock appreciation rights (the "Surrendered Stock Awards") for new unrestricted shares of Stock (the "New Shares"), as follows: (1) the exchange ratio shall be set so that each New Share shall have a value (determined in accordance with a generally accepted option valuation method as of a date within five business days prior to the commencement of any exchange offer) less than or equal to the value of the Surrendered Stock Award(s) (determined by the trading price of the Company's Common Stock within five business days prior to the date of the exchange offer) and (2) the Compensation Committee shall determine an exchange ratio for the Equity Exchange Program consistent with the foregoing pursuant to which Surrendered Stock Awards shall be exchanged for New Share(s). "Eligible Service Providers" means employees, executive officers, directors and consultants of the Company who are employed by, or providing services to, the Company throughout the duration of the exchange offer. Subject to the foregoing, the Compensation Committee shall be permitted to determine additional terms, restrictions or requirements relating to the Equity Exchange Program."

New plan benefits

The benefits that will be received by or allocated to service providers under the Equity Exchange Program are not currently determinable because the exchange ratio has not been established.

Interests of officers and directors in the equity exchange program

Aware's executive officers and directors, to the extent they elect to participate in the Equity Exchange Program, will exchange their Stock Awards for New Shares. As of September 15, 2010, each such executive officer and director was entitled to exchange Stock Awards for the following number of shares of common stock:

Name	Shares Subject to Stock Awards
Michael A. Tzannes (Executive Chairman and Director)	1,583,552
Edmund C. Reiter (President, Chief Executive Officer and Director)	1,201,835
Richard P. Moberg (Chief Financial Officer)	212,000
Adrian F. Kruse (Lead Director)	119,700
G. David Forney, Jr. (Director)	123,599
John K. Kerr (Director)	218,250
Mark G. McGrath (Director)	87,700
Charles K. Stewart (Director)	31,000

Vote required

To be approved, this proposal must receive an affirmative majority of the votes cast at the special meeting.

The board of directors recommends that you vote FOR the Proposal.

COMPENSATION OF EXECUTIVE OFFICERS AND DIRECTORS

COMPENSATION DISCUSSION AND ANALYSIS

Overview. The Compensation Committee has the responsibility to review the performance and development of Company management in achieving corporate goals and objectives and to assure that senior executives of the Company are compensated effectively in a manner consistent with the strategy of the Company, competitive practice, and the requirements of the appropriate regulatory bodies. Toward that end, the Compensation Committee oversees, reviews and administers all compensation, equity and employee benefit plans and programs. The Compensation Committee is responsible for reviewing annually and determining the individual elements of total compensation for the Company's executive chairman and president and chief executive officer and all other corporate officers. The Compensation Committee may delegate any of its responsibilities to a subcommittee of one or more members of the Committee, the executive chairman and president and chief executive officer or to a committee of senior executive officers when appropriate and consistent with applicable law. The Compensation Committee acts pursuant to a charter that has been approved by the board of directors.

In 2009, the following persons served as our executive officers: Michael A. Tzannes, chief executive officer; Edmund C. Reiter, president; Richard W. Gross, senior vice president of engineering; and Richard P. Moberg, chief financial officer. On November 13, 2009, Mr. Gross terminated his employment with the Company in connection with the Company's sale of substantially all of the assets related to its home networking and digital subscriber line business to Lantiq Deutschland GmbH. On December 4, 2009, the board of directors decided that, effective January 1, 2010, Mr. Reiter would become chief executive officer (also retaining the title of president) and Mr. Tzannes would become executive chairman.

Compensation program objectives. The objectives of the Company's executive compensation programs are to attract, motivate and retain executives who drive the Company's success and to assure that senior executives of the Company are compensated effectively in a manner consistent with the strategy of the Company, competitive practice, and the requirements of appropriate regulatory bodies. The executive compensation programs are designed to reward individuals for advancing business strategies, further developing the Company and its people, and the achievement of individual and Company performance goals. In 2009, the Compensation Committee took into consideration the Company's achievement of certain financial and operational goals in determining the potential bonus for Messrs. Tzannes, Reiter, Gross and Moberg. The Compensation Committee also takes into consideration the individual's performance in determining the compensation elements for each of the Company's Named Executive Officers.

Role of executive officers in determining executive compensation. The Company's executive chairman assists the Compensation Committee in determining executive compensation including recommendations for executive officer compensation. The Compensation Committee makes the final determination on executive compensation for all the Company's executives, including the Named Executive Officers shown in the tables under Executive Compensation.

Corporate performance goals. The Company utilizes corporate performance goals in reviewing the overall compensation for executives. More specifically, the Company utilizes corporate performance goals primarily in determining the amount of the cash incentive award to give to executives. The Company structures the cash incentive award program to executives based upon a percentage attainment of certain corporate performance goals. During 2009, the Company's achievement of certain revenue and earnings targets were deemed key corporate performance goals and represented fifty percent (50%) of the potential cash incentive compensation for the eligible executives. The remaining fifty percent (50%) of the potential cash incentive compensation for the eligible executives was based upon the attainment of certain operational goals specific to each executive. The Compensation Committee may in its discretion increase or reduce awards or payments based upon executive performance. For 2010, the Compensation Committee has determined that reaching certain operational targets and/or certain financial targets such as revenue, operating income and/or earnings per share are key corporate performance goals.

Option grant timing/pricing. The Company's practice with regard to the granting of equity awards is to typically grant stock equity awards in the following circumstances: 1) at regularly scheduled board meetings; 2) upon the new hire of certain employees or directors; 3) subsequent to the annual performance or compensation review of employees, soon after one of the Company's quiet period ends; 4) subsequent to the annual performance reviews for executives and officers; and 5) at the annual meeting of stockholders for directors. The Company's quiet period begins two weeks prior to the end of a fiscal quarter and ends two days after the Company announces financial results for said fiscal quarter. Historically, it has been the Company's practice to price equity awards based on the closing price of the Aware common stock on the date that the Compensation Committee executes a Compensation Committee consent granting the equity awards.